FITCH RATES SAINT PAUL, MN'S GOS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-06 April 2015: Fitch Ratings assigns an 'AAA' rating to the following Saint Paul, MN (the city) general obligation (GO) bonds:

--$12.54 million Saint Paul GO capital improvement bonds, series 2015A.

Proceeds will be used to pay for various capital improvement projects and refund outstanding bonds. The bonds are scheduled for competitive sale on April 8.

Fitch also affirms the 'AAA' rating on the following bonds:

--$11.78 million GO capital improvement bonds, series 2014A;
--$28.23 million GO street improvement special assessment bonds, series 2014B;
--$13.54 million Saint Paul Public Library Agency GO library bonds, series 2014C.

The Rating Outlook is Stable.

SECURITY

The bonds are payable from the city's unlimited full faith and credit pledge.

KEY RATING DRIVERS

ECONOMIC DIVERSITY: The broad and diverse economy continues to show resilience, and assessed value levels were up this year after several years of declines. The city benefits from its presence in the healthy twin cities economy, as well as its role as home of the state's government.

STRONG FINANCIAL FUNDAMENTALS: The city consistently exhibits stable financial performance and maintains healthy reserve levels that will allow it to absorb expected cost increases. Carrying costs for debt service, pensions and retiree healthcare are expected to remain stable relative to budget.

PROACTIVE, CONSERVATIVE MANAGEMENT: Management has actively dealt with budgetary challenges, demonstrating a willingness to raise recurring revenues and adhere to its prudent reserve policy.

DECLINING DEBT BURDEN: Debt levels are moderate but expected to decline as the city plans to issue less debt than it amortizes.

RATING SENSITIVITIES

The rating is sensitive to shifts in fundamental credit characteristics including the city's strong financial management practices. The Stable Outlook reflects Fitch's expectation that such shifts are unlikely.

CREDIT PROFILE

Saint Paul is the capital of Minnesota and is a major component of the vibrant twin cities economy.

DIVERSE EMPLOYMENT BASE STABILIZES ECONOMY

Saint Paul's two leading employers are the University of Minnesota and the state of Minnesota, which provide stability to its economy. The city's employment base is strong. Employment levels are up slightly over the past decade, similar to the state. The January 2015 unemployment rate was a very low 4.2%, below the state's low rate of 4.6% and well below the national rate of 6.1%.

Saint Paul's taxable value declined for each of the four years through the 2013 collection year. Recently, the city has had a substantial amount of construction and home price appreciation, resulting in a small increase in taxable value for 2014. Approximately 30% of the property in the city is tax-exempt. The commercial tax base is supported by a diverse group of businesses and is home to a number of large corporations including 3M and The Travelers Companies.

BUDGET PRUDENTLY MANAGED TO MAINTAIN CUSHION

Strong budget management has enabled the city to maintain strong reserve levels despite significant variability in Local Government Aid (LGA) receipts from the state beginning in 2008, though LGA has stabilized in recent years. The city maintains a financial cushion consistently in line with its prudent policy of fund balance at 15% of revenues. The general fund, supported largely by state aid and property taxes, has produced generally consistent operating surpluses. The city also benefits from a right of way fee that generated about $25 million in 2013 and, unlike property taxes, is charged to tax-exempt properties. After four years of surpluses, the city had a $3.4 million fund balance draw in 2013, reducing unrestricted fund balance to a still solid $46.5 million or 20.3% of expenditures.

2014 BUDGET BALANCED WITH INCREASED LGA

The city kept the property tax levy flat in the 2014 budget, supported by a 20% increase in LGA, following four years of decreasing or flat payments. LGA revenues rose to 26% of revenues in 2014, offsetting $9.1 million of increased costs driven by salary increases, higher pension costs, and the planned expiration of public safety grants. Management currently projects a $1.5 million surplus for the year. The 2015 budget is balanced with a 2.4% property tax increase and stable LGA payments. The city is at risk of future volatility of LGA, though it should be stable or growing in the near term given recent positive operations at the state.

ADEQUATE PENSION FUNDING; DECREASING DEBT

The city's overall debt burden is moderate at $2,843 per capita and 4.5% of market property value. The burden is likely to decline, as debt plans are minimal, and a high 73% of the city's debt amortizes within 10 years.

City employees are members of the state-run Public Employee Retirement Plan (PERA), which consists of several sub-plans, with the bulk of the city's employees in the General Employees Retirement Fund (GERF) or the Public Employees Police and Fire Fund (PEPFF). Based on its GASB 67 valuation as of June 30, 2014, GERF is reporting a ratio of assets to liabilities of 79%. Using its funding assumptions and adjusted by Fitch to reflect a 7% discount rate, the plan's funded ratio would be 63% as of the same date. PEPFF's 2014 ratio of assets to liabilities was 87%, or 69% using the 7% discount rate. Annual funding is done on a statutory basis with contributions equal to a percentage of payroll adjusted annually to achieve full funding in 25 years or less (fiscals 2031-2038, depending on the plan).

Fitch believes the city has adequate flexibility to absorb increased pension costs. Healthcare savings from benefit reductions and discounts for new employees should decrease future retiree healthcare costs. Fitch expects carrying costs for debt service, pensions and other post-employment benefits

(OPEB) to remain a relatively stable portion of the budget. Carrying costs consumed a moderate 16% of governmental spending in 2013.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/ Case-Shiller Home Price Index, IHS Global Insight, Zillow.com, National Association of Realtors.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314